

AGENDA
FINANCE COMMITTEE MEETING
AND SPECIAL BOARD MEETING
Santa Fe Irrigation District

May 15, 2007

1:00 p.m.

at the Santa Fe Irrigation District offices
5920 Linea del Cielo
Rancho Santa Fe

CALL MEETING TO ORDER

PLEDGE OF ALLEGIANCE

ITEMS TO BE ADDED TO THE AGENDA

(Government Code Section 54956.5)

ORAL COMMUNICATIONS

Opportunity for members of the public to address the Board (Government Code Section 54954.3)

ACTION AGENDA

The following items on the Action Agenda call for discussion and action by the Board of Directors. All items are placed on the Agenda so that the Board may discuss and take action on the item if the Board is so inclined.

1. Minutes from April 16, 2007 Finance Committee (pages 3-4)
2. Review of Investment Portfolio (pages 5-6)
3. Directors' and General Manager's Expenses/Reimbursement – Monthly Report (page 7)
4. Report on SouthTrust Bank Investment (pages 8-9)
5. Review Draft FY 2007-08 District Budget and Rate Impact Analysis (pages 10-12)

REPORTS

6. General Manager's Report (oral)

7. Committee Members' Comments (oral)

ADJOURN

Next Finance Committee meeting: Tuesday June 12, 2007 at 8:30 a.m.

If at any time during the committee meeting a quorum of the Board is present, then the meeting will continue as a Committee of the Whole. Actions taken pursuant to this agenda, whether by the Committee or the Committee as a Whole, shall be actions within the purview of the Committee and shall be deemed recommendations of the Committee. This meeting shall be noticed, agendized and conducted in accordance with the Brown Act.

Assistance for the disabled: *If you are disabled in any way and need accommodation to participate in the Board meeting, please call the Board Secretary at (858) 756-2424 for assistance at least three (3) working days prior to the meeting so the necessary arrangements can be made.*

MINUTES
FINANCE COMMITTEE MEETING
Santa Fe Irrigation District

April 16, 2007

8:30 a.m.

at the Santa Fe Irrigation District offices
5920 Linea del Cielo
Rancho Santa Fe

The meeting was called to order at 8:35 a.m.

PRESENT: Board President Robert Irvin, Director John Ingalls, General Manager Michael Bardin, Administrative Manager Jeanne Deaver, Sr. Accountant David Eddleman, and Executive Assistant Nicky Cloyes

ACTION AND DISCUSSION ITEMS

1. MINUTES FROM MARCH 6, 2007 FINANCE COMMITTEE

Approved as submitted.

2. REVIEW OF INVESTMENT PORTFOLIO

Approved as submitted. Director Ingalls requested Staff determine if the \$1million Southwest Corporate bond was a collateralized obligation. He expressed concern about this investment and asked that the record show he was opposed to it being part of the portfolio. Staff will discuss this matter with MBIA and report back to the Committee.

3. DIRECTORS' AND GENERAL MANAGER'S EXPENSES/REIMBURSEMENT – MONTHLY REPORT

Approved as submitted.

4. REPORT ON MEDICARE ISSUE

No action taken – information item.

5. FISCAL YEAR 2008 BUDGETED COST ALLOCATIONS

No action taken – information item. Chairman Irvin requested Staff look closer at the allocation of costs associated with Board activities support in future budgets.

6. AWARD OF PURCHASE CONTRACT FOR TELEPHONE SYSTEM – METRONOME, INC.

Finance Committee
April 16, 2007

After lengthy discussion, the Committee concurred with Staff recommendation to present this item to the full Board for approval.

7. DISCUSSION OF PRELIMINARY FY 2007-08 BUDGET

No action taken – information item. The Committee and Staff had lengthy discussion and Staff responded to questions of the Committee. Staff will incorporate the Committee’s input in the FY 2007-08 budget document.

REPORTS

8. GENERAL MANAGER’S REPORT

None

9. COMMITTEE MEMBERS’ COMMENTS

Director Ingalls commented that the Board Workshop was excellent and provided lots of food for thought. Director Ingalls reiterated the need to make a decision on maintaining the location or relocating the corporate yard.

Chairman Irvin commented that he had been contacted by Margaret Schlesinger, of the Solana Beach Civic and Historical Society regarding needing property on which to move a local church they hoped to relocate. Chairman Irvin requested this item be placed on the April 19, 2007, Board meeting agenda to brief the Board and receive feedback.

Chairman Irvin requested General Manager Bardin contact Ms. Schlesinger for further information.

ADJOURN

Next Finance Committee meeting: Tuesday May 8, 2007 at 8:30 a.m.

Chairman Irvin adjourned the meeting at 10:55 a.m.

Robert M. Irvin
Committee Chairman

Santa Fe Irrigation District
Investment Portfolio
4/30/2007

Security Type	Issuer	CUSIP	Purchase Date	Maturity Date	Next Call Date	Par Value	Coupon Rate	Yield to Maturity	Book Value	Market Value ¹ 4/30/2007
<u>Securities Purchased During the Month:</u>										
none										
<u>Securities Matured/Called/Sold During the Month:</u>										
none										
<u>End of Month Position (bold type < 45 days to maturity or call):</u>										
Agency	FFCB	31331VA48	1/5/07	12/4/07	n/a	1,000,000	5.250%	5.13%	1,005,560.83	999,800.00
Agency	FFCB	31331VM52	8/4/06	7/3/08	n/a	1,000,000	5.500%	5.28%	1,008,636.11	1,005,100.00
Agency	FFCB	31331XBQ4	1/18/07	10/23/09	n/a	1,500,000	5.000%	5.02%	1,516,585.00	1,506,150.00
Agency	FHLB	3133XBSD8	6/9/05	5/16/08	n/a	1,000,000	4.250%	4.21%	983,679.73	991,900.00
Agency	FHLB	3133XCSA2	10/24/06	9/12/08	n/a	1,000,000	4.250%	5.16%	988,758.33	990,600.00
Agency	FHLB	3133XEN96	3/22/07	3/13/09	n/a	1,000,000	4.750%	4.92%	998,067.50	997,800.00
Agency	FHLB	3133XFLE4	7/12/06	6/11/10	n/a	1,000,000	5.250%	5.51%	999,993.33	1,013,500.00
Agency	FHLB	3133XGRD8	9/18/06	9/29/10	n/a	1,000,000	5.125%	5.09%	1,004,424.31	1,010,200.00
Agency	FHLMC	3128X3ZZ9	11/5/04	10/19/07	n/a	1,000,000	3.500%	3.43%	980,344.11	992,000.00
Agency	FHLMC	3128X4GY1	8/25/05	11/15/07	n/a	1,000,000	4.500%	4.49%	1,003,573.84	995,800.00
Agency	FHLMC	3128X4RC7	1/5/07	10/17/08	n/a	1,000,000	4.750%	4.92%	1,007,301.67	997,200.00
Agency	FNMA	31359MVC4	3/11/05	5/17/07	n/a	1,000,000	3.750%	3.97%	989,520.55	999,300.00
Agency	FNMA	3136F3CT1	12/6/06	3/17/08	n/a	1,000,000	3.250%	4.92%	986,551.94	983,900.00
Agency	FNMA	3136F4VX9	11/5/04	12/8/08	n/a	1,000,000	5.125%	4.26%	995,589.04	1,003,200.00
Agency	FNMA	3136F7B48	6/30/06	5/19/11	5/19/09 ²	1,000,000	5.625%	5.84%	1,002,722.60	1,012,400.00
Corp Bond	GE Capital	36962GS62	11/9/06	10/21/10	n/a	1,000,000	4.875%	5.12%	993,717.50	995,600.00
Corp Bond	MBNA	5526E0AL7	1/5/07	8/3/09	n/a	1,000,000	4.625%	5.02%	1,010,147.78	991,700.00
Corp Bond	SouthTrust	8447HACE2	11/22/06	5/15/08	n/a	1,000,000	3.125%	5.20%	971,407.64	976,800.00
T-Note	US Treasury	912828EB2	8/4/06	7/31/07	n/a	1,000,000	3.875%	5.15%	988,311.83	997,200.00
T-Note	US Treasury	912828GE4	2/15/07	1/31/09	n/a	1,000,000	4.875%	4.94%	1,000,848.16	1,003,200.00
Total Securities						\$ 20,500,000	4.573%	4.88%	\$ 20,435,741.80	\$ 20,463,350.00
LAIF (rate is average return for the month)							5.230%	5.230%	3,800,318.16	3,800,318.16
Total Investments							4.69%	4.94%	\$ 24,236,059.96	\$ 24,263,668.16
Weighted Average Final Maturity							515 days or 1.4 years			

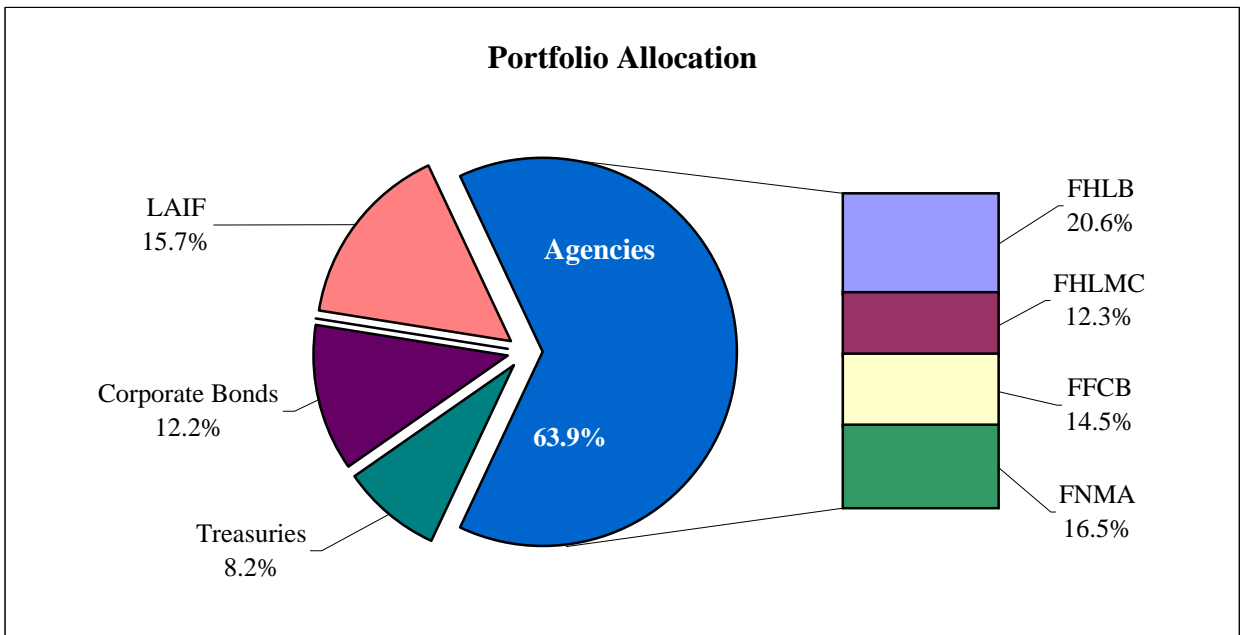
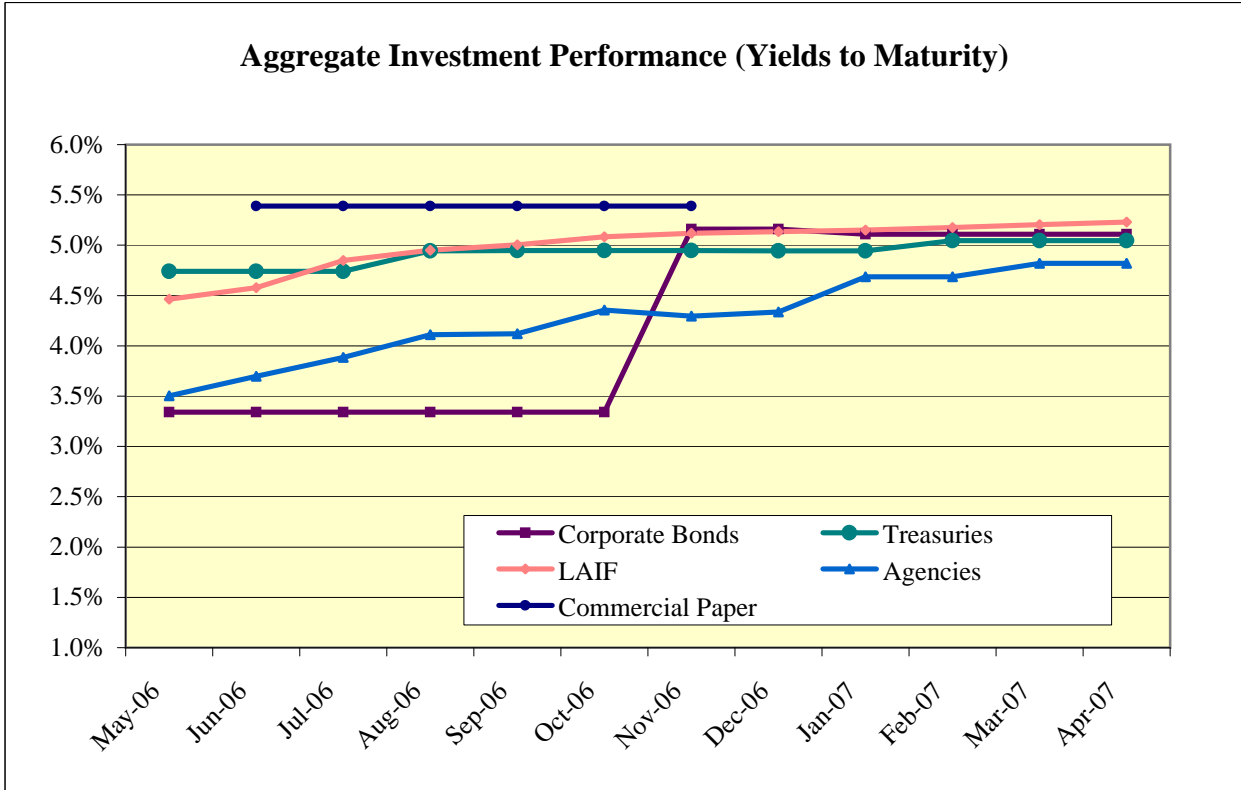
¹ Source for security market values is MBIA.

² One-time call

³ Semi-annual call

⁴ Quarterly call

**Santa Fe Irrigation District
April 30, 2007**



Santa Fe Irrigation District
Board of Directors and General Manager Expenses
For the Month of April 2007 and Fiscal Year-to-Date

Director/ General Manager	Month						Fiscal YTD Total	Compensated Days of Service *				Fiscal YTD
	Per Diem Payments	Mileage & Parking	Travel & Meetings	Office Supplies	Phone & Fax	Total		Month				
								Board	Committee	Other	Total	
DADDI, Augustus	\$ 1,080.00	\$ 45.59	\$ 37.00	\$ 0.00	\$ 0.00	\$ 1,162.59	\$ 5,531.79	1	1	4	6	30
DUNFORD, K B	1,440.00	0.00	37.00	0.00	0.00	1,477.00	7,570.60	1	3	4	8	38
HOGAN, Michael	1,440.00	14.55	625.00	0.00	0.00	2,079.55	9,041.89	0	2	6	8	41
INGALLS, John	720.00	0.00	37.00	0.00	0.00	757.00	7,782.74	1	1	2	4	36
IRVIN, Robert	1,440.00	46.95	37.00	0.00	161.65	1,685.60	8,497.34	1	3	4	8	37
BARDIN, Michael	0.00	77.60	37.00	0.00	334.07	448.67	4,838.05					
	<u>\$ 6,120.00</u>	<u>\$ 184.69</u>	<u>\$ 810.00</u>	<u>\$ 0.00</u>	<u>\$ 495.72</u>	<u>\$ 7,610.41</u>	<u>\$ 43,262.41</u>					

* Compensated days of service may represent multiple meetings per day.

DATE: May 15, 2007
TO: Finance Committee
FROM: General Manager
SUBJECT: Report on SouthTrust Bank Investment

RECOMMENDATION:

It is the Staff recommendation that the Board of Directors:

1. Review and discuss Staff's report on the SouthTrust Bank investment, and
2. Take other action as appropriate.

DISCUSSION:

During the last Finance Committee meeting, Director Ingalls expressed his concern about a particular investment that is in the District's portfolio, SouthTrust Bank Corporate Bond. He requested that Staff find out more about SouthTrust Corporation and whether or not its debt is secured.

Staff has contacted MBIA to get more information regarding this investment and the potential loss or gain if the District were to liquidate it. At the time it was purchased by the District (November 2006), the rating was AA-/Aa2. The original issue date was May 6, 2003 for \$100 million. The debt type is medium term bank notes, senior unsecured, with a maturity date of May 15, 2008. The District purchased 1,000,000 par value at a unit cost of \$97.08; the total cost, plus interest, was \$971,407.64. Since the date of issue, Wachovia Corporation acquired SouthTrust Corporation. Moodys recently upgraded SouthTrust's rating from Aa2 to Aa1 for all senior debt obligations. The S&P rating was upgraded from AA- to AA.

Staff confirmed with MBIA that two other corporate bond issues in the District's portfolio are also unsecured: GE Capital and MBNA (Bank of America). GE Capital's debt type is medium term notes with an original face amount of \$1.25 billion, issued on October 21, 2005. The District purchased 1,000,000 par value on November 8, 2006, at a unit cost of \$99.128; the total cost plus interest was \$993,717.50. GE Capital's debt rating is AAA/Aaa.

The MBNA Bank of America investment was purchased on January 4, 2007 at a unit cost of \$99.062 for 1,000,000 par value for a total of \$1,010,147.78. The original sale date was July 27, 2004 and matures on August 3, 2009. The debt type is Global Bank Notes and has an original face amount of \$500 million. MBNA's debt rating is AA+/Aaa.

All of these investments fall within the State investment laws as well as within the District's investment policy. If unsecured debt is a concern to the Finance Committee, then staff would

recommend the policy be changed to specifically state this type of investment not be allowed. We can also liquidate these investments, if the Board desires.

FISCAL IMPACT:

There is no fiscal impact at this time. However, if the Board chooses to liquidate these investments, as of May 2, selling SouthTrust would result in a \$1,400 loss, GE Capital a \$2,000 loss and MBNA a \$600 gain. The net impact would be a loss of approximately \$2,800.

Prepared by: Jeanne Deaver, Administrative Manager

Approved by: Michael J. Bardin, General Manager

DATE: May 15, 2007

TO: Finance Committee

FROM: General Manager

SUBJECT: Review Draft FY 2008 District Budget and Rate Impact Analysis

RECOMMENDATION:

1. Review and discuss the Draft FY 2008 District Budget; and
2. Review and Discuss Proposed Water Rate Increase Alternatives; and
3. Take other action as appropriate.

DISCUSSION:

The purpose of this agenda item is to present the final Draft FY 2008 District Budget and present a rate increase sensitivity analysis for your review and consideration. A summary of the preliminary budget was presented to the Board of Directors at the April 19, 2007 Board meeting. At that time, staff presented alternative rate increase scenarios for the Board's review. Staff was directed to schedule a Special Board meeting in conjunction with the May Finance Committee meeting to review the final draft of the budget and consider rate increase alternatives. Staff will provide a presentation of various rate alternatives for discussion at this meeting.

A copy of the budget document is enclosed for your review. Staff will provide presentations on the final Draft FY08 Budget and the results of a rate impact analysis using the rate model developed in 2006. Staff is prepared to discuss these items and receive input on key issues from the Committee. No action is requested at this time. Consideration of the adoption of the FY08 District Budget will be held at a Public Hearing tentatively scheduled for the June 15, 2007 regular Board of Directors meeting. The following sections summarize elements of the final Draft FY08 Budget.

REVENUES

Operating Revenues

The proposed FY08 Budget includes total operating revenue projections of \$16.8M, which represents an increase of \$1.8 M from FY 07. The majority of this increased revenue is due to a planned 15% water rate increase effective January 1, 2008; which is reflected in this budget document.

The Board will consider adoption of the FY08 Budget in June 2007 and subsequent to that action, will consider the adoption of a rate increase. It is anticipated that public noticing requirements and the 45 day public comment period for the proposed rate increase will begin in September 2007, with a January 1, 2008 effective date.

It is important to note that in the event a water rate increase is not approved or varies from what is reflected in the FY Budget, it will require the Board to revisit the budget to approve necessary amendments.

Non-Operating Revenues

The proposed FY08 Budget includes total non-operating revenue projections of \$3.1M, which represents a slight decrease from FY 07 revenues of \$3.3. Non-operating revenue sources include general property taxes, interest income, capacity charges and capital reimbursements from SDWD. The decrease in non-operating revenue is due to lower projections in capacity charges, miscellaneous non-operating revenue, and SDWD reimbursements.

OPERATING EXPENSES

Overall operating expenses are projected to increase 9% over FY07 projections. The 9% projected overall increase represents a total \$1.44M increase in operating expenses. This increase is primarily the result of increased water purchase costs (both imported and local), labor expenses, and higher energy costs at the treatment plant. These major cost center increases are summarized below:

- Imported Water Purchase Expense \$222K
- Local Water Purchase Expense \$267K
- Personnel Expense \$424K
- Plant Operations \$380K
- Admin./Eng./O&M \$144K

A portion of the projected personnel expense increase is based upon assumptions regarding the current labor negotiations with the SFID Employee Association. The proposed FY08 Budget includes figures that may be subject to revision as a result of these negotiations.

CAPITAL EXPENSES

The District's FY08 Capital Budget of \$2.49M is funded out of the Capital Improvement Fund. It includes \$1.9M for capital improvement projects and \$553k for capital acquisitions. Important efforts planned for FY08 include ongoing plant rehabilitation/enhancements, implementation of the valve replacement project, Larrick Pump Station improvements, and the development of an Asset Management Plan.

A total of \$3M of capital project appropriations is proposed to be carried over from FY 07 to FY08. This \$3M is in addition to the \$1.9 in new project appropriations. Approval of the budget as presented will provide a total of nearly \$5M in capital spending for important replacement and improvement projects.

DEBT SERVICE AND NET REVENUE COVENANT

The outstanding principal balance for the 1999 Water Revenue Bonds will be \$13.6M as of June 30, 2007. Required debt service payments for FY08 total \$1.46M. It is projected that net revenue coverage will be approximately 211% in FY08, well above the required 115% coverage requirement.

RESERVE FUND ACTIVITY

Rate Stabilization Fund

As was the case in the prior fiscal year, Rate Stabilization Funds will be used to fund the operating deficit and offset operating expense increases. A transfer of \$2.6 million from this reserve is projected for FY08. The projected FY08 beginning and ending balances of the Rate Stabilization Fund are \$7.3M and \$4.7M, respectively.

Capital Improvement Fund

Assessment of the District's annualized replacement costs has concluded that on average the District will need to provide \$3.8M annually in replacement costs to adequately replace and refurbish infrastructure assets. While the level of capital expenditure may fluctuate from year to year, the ability to annually fund contributions equivalent to the estimated annualized replacement costs is a significant means of ensuring the condition of the District's water treatment and delivery infrastructure.

In FY08, a \$3.8M contribution to the Capital Improvement Fund will be funded in the following manner:

- General Property Tax Revenue \$1.5M
- Interest Income Earnings of the Fund \$700K
- Contribution from Rate (Depr. Exp.) \$1.6M

This \$3.8M contribution to the Capital Improvement Fund will be offset by the level of expenditures, subject to appropriation limits. It is estimated that the net affect of additions and withdrawals will result in a reduction to the fund balance of \$1.0M. The projected FY08 beginning and ending balance of the Capital Improvement Fund are \$15.5M and \$14.5M, respectively.

COMMITTEE ACTION:

Staff has reviewed the various components of the budget with Board subcommittees. The Organization and Personnel Committee has reviewed the Personnel section, and the Water Resources Committee has reviewed the proposed Capital Budget and projects. The Finance Committee reviewed the preliminary budget and considered such issues as revenue projections and a rate alternative analysis. In addition, Staff has met with San Dieguito Water District (SDWD) Staff and the Joint Facilities Advisory Committee and reviewed the R.E. Badger Filtration Plant component of the budget.

FISCAL IMPACT:

None at this time.

Enclosure: Draft FY08 District Budget

Prepared by: Jeanne Deaver, Administrative Manager
Approved by: General Manager Michael J. Bardin